

Mixed US data keeps the Fed guessing

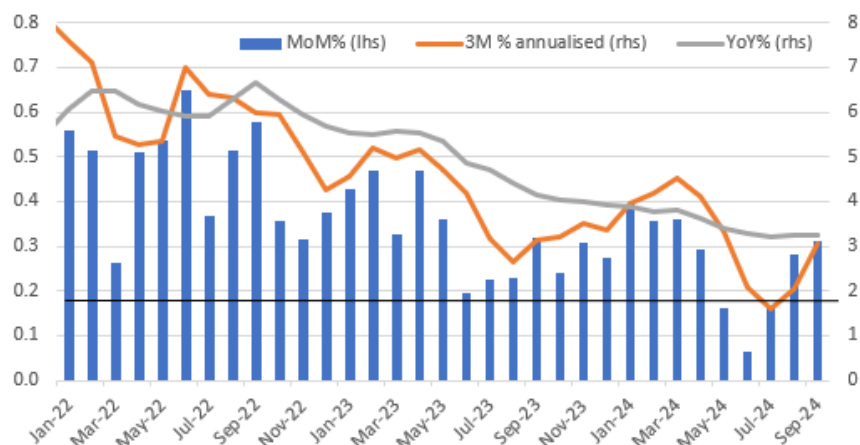
The battle between the US jobs numbers and the inflation data with regards to the outlook for Fed policy remains unresolved. As such policymakers will need to tread carefully, but our base case remains 25bp rate cuts in November and December



Core inflation still tracking high

The September US consumer price inflation data is hotter than predicted by a tenth of a percentage point for both headline and core (0.2% and 0.3% month-on-month respectively). This is the second consecutive 0.3% MoM print for core inflation, which as the chart below shows is not a great look. We need to average 0.17% MoM over 12 months to deliver 2% year-on-year inflation and the US economy is tracking higher than that right now – the black line marks 0.17%.

US core CPI metrics



Source: Macrobond, ING

The details show that energy prices did fall as expected, but food was much firmer, posting a 0.4% MoM gain. With regards to core (ex food & energy) inflation the breakdown shows the very hot sectors were apparel (+1.1%), airline fares (+3.2%), medical care (+0.4%) with used cars up 0.3%. However, most other components looked reasonably good with housing posting a relatively benign 0.2% MoM outcome, recreation falling 0.4% MoM, education and communication coming in flat. In terms of what it may mean for the Fed's favoured inflation measure, the core personal consumer expenditure deflator, there is still a decent chance of a 0.2% MoM outcome if tomorrow's PPI report is better behaved. Medical care and airline fares come from that methodology in the core PCE deflator.

Weather impact adds to labour market volatility

Meanwhile, the labour market data is weaker than anticipated with initial jobless claims spiking to 258k from 225k (consensus 230k). Continuing claims also moved sharply higher to 1861k from 1819k (consensus 1830k). It may well be reflecting distortions to the terrible weather several states have encountered and this could be a theme that generates significant volatility in this series over the next few weeks. Nonetheless, it reinforces the message that conflicting messages in the data – coming after last week's strong jobs report – makes policymaking very challenging and justifies moving with caution.

US initial jobless claims



Source: Macrobond, ING

Fed set to continue gradually cutting rates by 25bp

In yesterday's minutes to the September FOMC meeting the Fed sounded fairly relaxed about the inflation story – "participants noted that further cooling [in the jobs market] did not appear to be needed to help bring inflation back to 2 percent." However, "a couple of participants specifically noted upside inflation risks associated with geopolitical developments" while "some participants cited risks" that improvements in inflation could be "stalled by a larger-than-anticipated easing in financial conditions, stronger-than-expected consumption growth, or continued strong increases in housing services prices". This suggests that tentative rate cuts are the most likely path forward for the Federal Reserve.

In a recent speech Fed Chair Jerome Powell suggested their baseline is 25bp increments from now on unless something changes and we think that is the path they will indeed take. We characterise the Fed's policy loosening as a risk mitigation move. Monetary policy has been restrictive for some time and now that inflation is looking as though it is on the path to 2% it makes sense to lower borrowing costs to give the economy a little more breathing space.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s).

as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.